

UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL



LIMITED

ST/ECLA/Conf.37/L.13

17 June 1971

ENGLISH

ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA

MEETING OF EXPERTS ON "FORMULATION AND
IMPLEMENTATION OF STRATEGIES FOR EXPORTS
OF MANUFACTURES"

Santiago, Chile, 26 July to 4 August 1971

METHODOLOGICAL CRITERIA AND BASES FOR THE SELECTION OF
EXPORTABLE MANUFACTURED PRODUCTS

by

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Working Document

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/Introduction

Introduction

This paper groups and summarizes the features that the author considers most important for the selection of industrialized products offering the best prospects for participation in regional, or subsequently world trade.

It should be borne in mind that this is a very condensed provisional study and is only intended to serve as a basis for a future study in greater depth of the factors that the experts consider should have greater significance in the selection of products and markets for the promotion of exports.

Several issues are raised with a view to collecting new criteria that will facilitate the implementation of a strategy aimed at increasing the region's share in world trade of manufactured products.

I. TYPE OF MANUFACTURE FOR EXPORT

In practice the techniques employed in defining and selecting manufactures that are potentially exportable often depart from a simple theoretical analysis, as a result of the numerous alternatives and the complex situation of international trade.

With the exception of cases where there is an evident advantage in producing and exporting an article, whether due to possession and control of certain natural resources, considerable idle capacity, tariff preferences, particularly efficient industries, commercial or industrial agreements, etc., the starting point is generally a study, at the most detailed level possible, of world trade statistics for those manufactures ^{1/} that are already satisfactorily produced or that are considered suitable for production in the country.

To this end it is suggested that series D of "Commodity Trade Statistics", the "World Trade Annual" (both published by United Nations) and series C of "Statistics of Foreign Trade" issued by the OECD countries be consulted initially. On the basis of this background material, more detailed research can be carried out on the products chosen, by means of a study of foreign trade statistics for the most interesting importing countries, and by consulting the marketing surveys by product and by country prepared by the UNCTAD/GATT International Trade Centre, or by referring to the most important specialized publications listed in a directory edited by the Centre. Special mention should be made of the "Compilation of Basic Information on Export Markets" also issued by the UNCTAD/GATT International Trade Centre which is a practical guide to selecting the product to be analyzed and the market to be studied, drawing up the basic information on both and using the results obtained.

Although it would be appropriate to establish the exact meaning of the expression "manufactures and semi-manufactures" from the start, it is not easy to define the scope of these terms. This is why the share assigned to manufactures and semi-manufactures within regional exports as a whole may vary considerably.

^{1/} For the sake of brevity, the word "manufactures" in this paper covers manufactured and semi-manufactured products.

/In accordance

In accordance with the definition of the Special Committee on Preferences, established by the Secretary-General of the United Nations in 1965, given in UNCTAD document TD/B/C.2/3, manufactures and semi-manufactures include all of sections 5 to 8 of the SITC, plus certain processed products included in sections 0 to 4 and two items in section 9.^{2/} Subsequently it has been observed that some of the items in sections 5 to 8 can be misinterpreted, such as groups 711 and 735, which, in the case of the developing countries, are often no more than temporary exports for the purpose of repairs or re-exports for scrap. Others are primary products such as silver (681.1), aluminium (513.65) or unworked non-ferrous metals, that are generally more highly processed for the purposes of marketing the primary products; also for a variety of reasons, because of the high proportion of these materials in the exports of certain developing countries and because they are not far removed from the primary product it was considered appropriate to exclude petroleum products (331.02, 332, 341.2).

Until a universally accepted definition is found, the figures on the trade of manufactures and semi-manufactures should be used with caution, because the different criteria applied in their classification may lead to comparisons that do not have a common basis.

The study of information on volume, price trends, dynamism of demand and subsequently supply should go back at least three years and where possible five, as this makes it possible to verify clearly defined demands and to establish a criterion for prior selection. The increase in the demand for a manufactured article must be considered as one of the most favourable factors for the penetration of a product in a market, since it does not necessarily imply that the exporter has to oust established suppliers of the same product.

Another simple way of determining the export potential of an article or group of articles is to attend Trade Exhibitions, preferably the specialized kind, because this makes it possible to find out about, and compare, products prices, marketing channels and qualities, and facilitates contact with the potential buyers and distributors from different countries. This is why

^{2/} See document TD/B/C.2/102, December 1970 - UNCTAD.

the organizations connected with export promotion should encourage entrepreneurs to attend such events as much as possible, since it has been said that one of the major problems confronting the region is its ignorance concerning potentially exportable manufactures and the markets for their sale.

Once the most interesting products for the exporting country have been preselected, it is essential to find out exactly about the relative advantages and disadvantages involved in facing international or regional competition, whichever is chosen, as such knowledge is needed to achieve optimum balance between the different factors arising in the manufacture of the product the country wishes to export. As a first approach to the problem, it is suggested that a distinction be made between goods whose manufacture is concentrated around the product, as is the case with ship building, and those whose production is based on a clearly defined industrial process, as is the case with iron and steel products and the by-products of petroleum refineries. In the first case, (product centres) production generally only uses a fraction of the joint capacity provided by the equipment available, thus the manufacture of these products is difficult to adapt to an easily established production sequence, which in turn makes it difficult to control; whereas the industries based on a well established process (process centred) are designed to produce a specific volume in a given period and are relatively easy to control. Between these two extremes there is a wide range of products and techniques, and it should be mentioned that there are industries that are classified as process centred because, although their operations may need plentiful manpower, they are controlled by central machinery and the proportion of marginal manual operations is less important.

According to authorized opinions,^{2/} labour productivity in the developing countries would be better at industrial operations where machines do most of the work, and the efficiency of the operators in the region seems to be better when the work has to be carried out with precision, because, when this is not the case, it is senseless to do it, as with precision tools and instruments. This would indicate that with adequate training, regional labour would offer comparative advantages in dealing with the needs of

^{2/} See Albert Hirschman, "The Strategy of Economic Development", Yale University Press, 1958.

certain types of industrial subcontracting that require intensive labour, thereby supplementing the developed countries' production. Certain studies ^{4/} show that in a process centred production it is better to distinguish between the operators working on the production line and those who are only responsible for marginal activities that are not affected by the central process, whose productivity in relation to that of the workers in the developed countries would be appreciably smaller. This situation, and the fact that a machine paced operation does not necessarily need more capital intensive techniques than a man paced operation, mean that it would be advisable to use techniques that avoid operations largely paced by the operator, and those that can be well or badly done without an easy exact control.

For these reasons it was considered that the industries in the region would compete better in those production processes that offer little latitude for shoddy workmanship; four types of latitude have been classified in this respect: ^{5/}

- (a) With regard to production programming;
- (b) With regard to the productive process, i.e., the delays in the flow of the operation, including maintenance of machinery;
- (c) With regard to the pace of operations, i.e., when the intensity and timing of operations is controlled by the machine or by the operator;
- (d) With regard to precision in operations or in the quality of production, where a distinction is needed between manual operations that require skill (e.g. sewing) and those that are routine (e.g. packing in bags).

This is a challenge to the institutional, managerial, labour and technological capacity of the region to find products, technologies and processes that require plentiful manpower and can be developed within an

^{4/} See J. Gouverneur "Hirschman on Labour Productivity Differentials" Bulletin Oxford University, Institute of Economics and Statistics, August 1970.

^{5/} Christopher Clague, "The Determinants of Efficiency in Manufacturing Industries in an underdeveloped country" Economic Development and Cultural Change. The University of Chicago Press, January 1970.

operational flow that does not allow for greater latitude in the pace of operations or the quality of the final product. It should be realized that in spite of the dominant role of price in export trends, there have not been systematic attempts to investigate the factors causing the differences in price between the competing countries.^{6/}

III. THE INDUSTRIAL POLICY OF THE REGION WITH REGARD TO EXPORTS

Few countries in the region have defined the specific objectives of their policy for the export of manufactures with any degree of exactitude, and this has made it difficult to study export strategies both on a national and a regional level. Furthermore, only in the last few years has real importance been attributed to the possibility of exporting manufactures and semi-manufactures, and it can be seen that this interest has generally been connected with the development and level of efficiency reached by the industry in question.

On the other hand, the absence of industrial policies geared to export has frequently been aggravated by exchange policies that have led to overvaluation of the national currency, favouring the fixing of high tariffs on imports and hampering the export of products with greater value added. At the same time it can be seen that the effective protection, used by the countries of the region to promote import substitution, has usually had far more influence than the incentives granted for the export of manufactures, added to which the concessions for their exports offered by the countries of the region are generally connected with trade policy measures and have not solved the basic problems caused by the low efficiency observed in the industrial structure of many countries in the region. It should be pointed out that the basis of success in exporting manufactured articles is to have an industry or industrial sector that can operate at maximum efficiency.

^{6/} See S. Paul and V.L. Mote, "Competitiveness of Exports: A Microlevel Approach", The Economic Journal, The Royal Economic Society, December 1970.

/It also

It also appears that insufficient importance has been attached to the cost-benefit effects of import substitution, upon the economy as a whole, through strong restrictions against external competition, in comparison with those that would have resulted from a policy geared more towards exports of manufactures or semi-manufactures. Although it must be recognized that the import substitution policy made it possible to create many new jobs, train the labour force, find out about production techniques, and has prepared the ground for going into external markets, and although a more open industrial policy might reduce the fiscal income derived from customs duties and charges and might cost more to promote, such sacrifices would be offset by greater economic activity and tariff income on the larger volume of imports. Furthermore, an open external policy offers the following advantages, among others:

- It creates new sources of work by promoting exports of value added by labour and improves both the training of the labour force and the efficiency and quality of the industrial sector.
- It helps to improve per capita distribution and increase availability of manufactures by stepping up its trade with other countries, as can be seen from the active trade in manufactures between the developed nations.
- It reduces costs by facilitating larger scale production, especially by efficient use of the industrial integration machinery available in the region, at the same time helping to utilize the surplus capacity available.

It should be stated that, in the context of exports of manufactured products, many factors come into play, it is therefore as well to distinguish between those that are mainly or exclusively controlled by the exporting country and those that basically depend on the importing market or country, although it should be admitted that some of these factors can or should be the subject of joint action. This is why the share of the region in world trade of industrialized products will depend largely upon the countries' ability to deal with the factors they control, that have an adverse effect upon capacity for competition.

/It can

It can be mentioned that in a document prepared by ILPES and CELADE (Inst./S.4/L.2/Add.6, p.2), it is stated that in 1967 manufactured goods of high unit value already accounted for 70 per cent of the total exports of the industrialized countries, and although this includes many dynamic products with a high technological content, it is obviously important for the developing countries to increase their share in this market since it is growing at almost twice the rate of trade in primary products.

With regard to co-production and subcontracting agreements with industrialized countries, it can be shown that the latter would also offer an appropriate way of taking indirect advantage of the tariff reductions resulting from the Kennedy Round, which would induce many of the so-called leading sectors to minimize their production costs. To this effect the developing countries could take part in such production ^{7/} contributing relative advantages as a result of the lower cost of their labour compared with that of the industrialized countries, and in this connexion it is appropriate to mention the opportunity offered to the so-called "re-export" industry which uses the tariff concessions granted by the industrialized countries for specific products when they are partially transformed or processed abroad and subsequently re-imported into these countries.

III. FACTORS MAINLY CONTROLLED BY THE EXPORTING COUNTRY

Considering that the world market buys practically all kinds of manufactures ^{8/} that are competitive in price and quality, presumably the possibility of participating in that market depends largely on the ability of the industry to adapt to the requirements of world demand, if it is assisted by preferential conditions offered by the importing country.

In analyzing the efficiency of regional industry and consequently the competitiveness of the supply of its manufactures, five main factors are seen to have an influence. These are:

^{7/} Some developed countries have in force tariff provisions of this kind, such as the United States, the European Economic Community and Japan.

^{8/} See footnote ^{1/}.

- Raw materials;
- Labour productivity;
- Utilization of installed capacity;
- Quality control; and
- Technological dependence.

In order to examine the incidence of these factors in greater detail, a brief analysis of each is made, with special emphasis on the way that they affect the competitive quality of regional industry abroad.

(a) Raw materials

Generally speaking, there is a tendency in the region to put exaggerated emphasis on the utilization of the raw materials each country produces, without bearing in mind that success in exporting manufactures depends fundamentally on the capacity for transforming these efficiently. It should be recognized that although the region has abundant natural resources, these frequently do not offer advantages to the industries using them, largely as a result of the following:

- When the quality and homogeneity of the raw materials do not come up to international standards, they decrease labour productivity, capital productivity and particularly the quality of the final product;
- The prices of raw materials, particularly when they have undergone some processing, are often higher than those on the world market. In these cases, so as not to destroy the export potential of the manufactured product, authorization should be given either to import the respective inputs or, if this is not possible, to compensate the exporter for the difference in the cost of national raw materials;
- The supply of raw materials is not always carried out at the right time, sometimes because of lack of working capital, difficulties in importing operative inputs, (spare parts, etc.,) or through deficiencies in production programming.

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- The type of cumulative taxation frequently applied by the countries of the region makes inputs more expensive and encourages an exaggerated vertical integration of industry, which often affects the efficiency of the process as a whole.

- Sometimes the supplier prefers to export raw materials directly, so as to have more assured access to export incentives.

(b) Labour productivity

Although it must be admitted that little research has been carried out on international differences between all the production factors, or what could be referred to as the level of efficiency,^{9/} it is evident that the countries of the region frequently accept without further analysis the generalization that regional labour is cheap while capital is expensive, and that this is why the region is in a particular strong position for competing in those exports that require plentiful human labour.

In this respect, it can be seen that, in developed industrial structures, labour productivity tends to be related to wages, this is borne out by the fact that North America with 16 per cent of those employed in world industry accounts for 38 per cent of industrial production, whereas the countries of the European Economic Community, where average salaries are lower, employ 21 per cent and only produce 25 per cent of the value of world industrial production.^{10/}

However this relation cannot be easily applied to the developing countries, especially in comparing different regions. According to the United States Tariff Commission report, the average salary per hour in electrical production plants is 0.53 dollars in Mexico, 0.27 dollars in Hong Kong and 0.14 dollars in Formosa. In factories producing toys and dolls, the corresponding figures are 0.65, 0.16 and 0.12 dollars respectively.^{11/} Furthermore, in the same publication it is stated that

^{9/} See Christopher Clague, "An International Comparison of Industrial Efficiency", Review of Economics and Statistics, Harvard University, November 1967, p. 487.

^{10/} Commission des Communautés Européennes. Memorandum de la Commission au Conseil, 1ère partie (1/5).

^{11/} Quoted in "Comercio Exterior", Banco Nacional de Comercio Exterior S.A., Mexico, April 1971, p. 275.

the relation between the average salary per hour in Mexico and the United States in 1969, including supplementary compensations, was 4.4 for electrical products for household use and 6.2 for office machines.

The comparison of salaries, especially including social security payments, earned by workers in these types of industry in Latin America shows an evident need for the region to achieve optimum balance of the factors affecting industrial production costs, so as to be able to compete successfully on the external market with supplies from other regions where labour is considered suited to the needs of these kinds of manufactures. Otherwise the region will probably not obtain the advantages to which it is entitled under the general preferences that the developed countries are expected to grant, therefore the solution is certainly not to reduce current salaries in the region.

(c) Utilization of installed capacity

Apparently one of the most unsatisfactory factors involved in industrial production efficiency in Latin America is the inadequate use of capital invested in machinery and installations, in other words its low volume of production in relation to capital invested in fixed assets; enterprises have managed to transfer the adverse effects of this situation to the domestic consumer with prices that are protected by high tariffs.

Although the absence of a uniform methodology at international level for qualifying and quantifying economically usable industrial capacity makes it difficult to obtain an objective comparison with other regions, there are a fair number of industries operating with a smaller number of shifts than would be considered normal even in an industrialized country.^{12/} Since this situation affects the utilization of capital and reduces employment possibilities, it is believed to be of special interest to study and determine the optimum number of shifts advisable in various sectors of industry and the sector of capacity that is particularly useful for exports, in accordance with the allocation of factors offered by the countries of the region.

^{12/} Wood-base panels of all types, FAO 1968.

It will also be appropriate to promote greater use of equipment and facilitate more rapid amortization payments on equipment where applicable, in addition to encouraging the installation of supplementary units to standardize present production lines and increase the efficiency of the whole. Furthermore, as stated below, it would be advisable to revise certain labour provisions, since both unused capacity and unemployment show the extent to which the region is failing to use its resources.

Unused capacity in regional industry conceals a potential that could be used in many cases to produce exportable manufactures, this is why it is appropriate to analyze its main causes, among which the following should be mentioned:

- The absence of machinery to promote the intensive use of industrial equipment and to link its use with the amortization period; this is particularly important for industries geared to export, which need very competitive equipment.

- The frequent absence of a definite industrial investment policy which has led to, and sometimes encouraged, redundant investment, often using external financing; this has increased the dependence of the region.

- The lack of policies to solve the problem of industrial inefficiency resulting from a certain fear of applying measures that focus on enterprises and at the same time force them to be efficient. Probably a more open external policy would make it possible to overcome the oligopolistic tendencies of many of the domestic markets and would force industrialists to use production factors realistically.

- The financial incentives generally offered by the industrialized countries - frequently backed by their measures for technical and financial assistance - aimed at exporting new industrial equipment, whose design and capacity for production is adapted to the allocation of factors in those countries. This situation is made worse by the lack of a regional industrial policy linking acquisition of machinery with optimum utilization of factors together with the fact that it is generally the most industrialized countries that offer better financing conditions for the sale of equipment.

- The scant use the region has made of its machinery for integration and industrial complementarity both in making better use of existing

/installations and

installations and in co-ordinating markets and promoting the production of capital goods designed in accordance with the factors available to the region. To make progress in this field it would be useful to establish regional machinery for technological information, with a view to gaining the necessary knowledge of the alternatives offered by world technology, its cost, conditions of sale and range. For this purpose it will be very useful to obtain as much information as possible from industrialized countries with a small market.^{13/}

- The existence of overvalued exchange rates which, together with credit and tariff concessions, have indirectly subsidized imports of machinery and encouraged over-investment in foreign industrial equipment. The high cost of working capital that enterprises need to operate has induced them to reduce their salary commitment by replacing the labour force with industrial equipment, generally financed from abroad under favourable conditions. It should also be mentioned that the importance of working capital in relation to fixed capital is generally greater in light industry.

- Programming and production problems caused by frequent difficulties in supplying raw materials, intermediate products and spare parts, especially when these have to come from abroad.

- Problems and overloading of the electrical energy supply at specific times, which hinder multiple shift work and make it more expensive.

- The surplus capacity that some enterprises design for their plants, not with a view to export, but to discourage the establishment of possible competitors in the domestic market; this situation is also sometimes connected with the minimum scale design of imported equipment.

- The problems deriving from labour legislation, which indirectly promotes overtime with the existing labour force instead of augmenting the force. Although this increases productivity by man-hour, it reduces productivity by man-hour, which is what finally determines the cost of incorporated labour, as well as raising the hourly cost and stepping up unemployment.

^{13/} See Raúl Prebisch, "Change and Development" Latin America's Great Task, p. 194.

- The frequent practice in the countries of the region of a forty-eight hour week on the basis of more than eight hours work a day, which together with the additional cost for shift and night work makes it more difficult to use the machinery in two or three shifts. This is why, to encourage work in multiple shifts in certain industries, it seems appropriate to find a way to reduce the duration of the present working week, based upon a larger number of shifts and establishing attractive conditions for the workers and enterprises. At the same time machinery should be envisaged to provide sufficient mobility for manpower and protect the workers against circumstances beyond their control and the entrepreneurs' which might affect them; this is a very important feature in the case of industries geared to exports.

Mention should be made of marginal costing which is generally linked with utilization of so-called idle capacity, which is sufficient to penetrate a market and useful in a short term policy. From the accounting point of view it is based on two principles:

(a) The separation of fixed production costs of so-called variables: the former are expenses incurred whether articles are produced and sold or not (administrative salaries, amortization payments, taxes, insurance, servicing of certain debts, etc.) while the variables derive directly from production or sale of articles (raw materials, labour, freight, commissions, etc.,) and form the basis of what is called marginal cost.

(b) The use of the relation between costs, volume of production and profit, since an increase in the volume of production reduces costs and the quantity of products that may bring in a profit grows.

It should be borne in mind that, in certain cases, if the importing countries consider that marginal costing causes or threatens to provoke a disturbance in their domestic market, they may apply compensatory duties and charges. This problem arises in practice when the supply of an imported product accounts for a significant share of the market.

/((d) Quality

(d) Quality control

The easy competitive conditions that the majority of domestic markets in the region have offered to their industries, with the additional advantage that they usually consider the price more important than the quality of the article, have resulted in quality norms and control being given secondary importance. This situation, and the fact that in some countries there are no institutions or provisions for dealing with the problem, have helped to create a rather gloomy - and frequently unjustified - impression of the quality of regional manufactures, which hinders their penetration in the markets of industrialized countries.

It will therefore be necessary to give particular emphasis to quality control of manufactured products as has been the case for countries operating successfully in the export of these products. To this end it will probably be appropriate to associate export incentives with the fulfilment of established quality requirements. At the same time it will be useful to seek understanding between the national organizations entrusted with quality standardization and control, so as to achieve a mutual recognition of "certificates of quality" and "approved quality markings" issued by these organizations. Furthermore, to facilitate penetration in the industrialized countries it would be advisable for the recommendations of the Pan-American Committee on Technical Standards (COPANT) to conform to those of the International Standardization Organization (ISO) and the International Electrotechnical Commission (IEC).

(e) Technological dependence

The policy frequently applied by the so-called "International Enterprises" that control an important part of world technology, tends to limit the use of their patents, trade marks and "know-how" and production to the area covered by the domestic markets of the countries in the region. This policy has been favoured by the tendency in those countries to protect domestic production through high tariff and non-tariff barriers within the autarky of industrial policy, which has promoted the installation of industries with scales of production that are insufficient for international competition, and which has hindered exports of manufactures with a high technological content, even in cases where raw materials are available under favourable conditions.

/Furthermore, the

Furthermore, the poor use of integration machinery in the region, mentioned above, particularly industrial complementarity machinery, generally due to self-sufficient industrial policies and difficulties in raising common defenses against the large international enterprises, has prevented the region from making the best use of its bargaining power with the centres supplying advanced technology. In this respect, it can be seen that only those countries with a larger domestic market have had sufficient power to negotiate with these enterprises and have been able to lay down conditions both on the acquisition of technology and the corresponding foreign investment involving an export commitment, which at least repays them in foreign exchange.

It has been mentioned that technical backwardness tends to get worse and the inward-looking attitude in industrialization continues.^{14/} This is why it seems essential to co-ordinate the regions efforts in the search for favourable technological solutions, if present dependence is to be overcome and duplication in research work avoided. Mention should be made of the need to give sufficient scope to the public organizations responsible for qualifying and authorizing the import of technology, and to keep technological information up to date so as to avoid payment for technology which they could provide themselves. It will also be important to seek satisfactory ways of establishing multi-national enterprises with decision-making centres in the region, as this is an important factor in avoiding the present trend towards "de-nationalization", already evident in important industrial enterprises operating in Latin American countries. To this end it will probably be advisable to instrument policies with the maximum number of countries in the region taking part, representing genuine regional public, labour and entrepreneurial sectors.

This kind of action could be supplemented, using direct investment in the technologically advanced sectors, to carry out specific technological research with the country relieving the investment, and undoubtedly the most effective and direct means of developing know-how is through multi-national enterprises with decision-making centres in the region.

^{14/} The Need for an Export-Oriented Pattern of Industrialization. Published in "Industrialization and Productivity", United Nations, Bulletin No. 14, 1969, p. 19.

A policy that tends to channel direct foreign investment into production mainly intended for export, even on the basis of trade of semi-manufactures or finished products, would help to reduce the current dependence of the region.

IV. FACTORS GENERALLY OUTSIDE THE CONTROL OF THE EXPORTING COUNTRY

As a result of intensive international competition it should be recognized that it is normally the market importing manufactures that lays down the conditions of price, quality and quantity of articles to be exported, furthermore since markets corresponding to very small preferential trade blocks are not involved, an isolated supply has no influence in external markets.

Research should be carried out on characteristics, particularly volume and dynamism shown by demand on the buying market, in order to give priority to the study of potential markets and on whether or not they form part of a preferential trade block. If they do, it should be established whether this is a Free Trade Area or a Customs Union, since in the first case the members are relatively free to arrange their external tariffs for non-member countries, whereas in the Customs Union, apart from liberalization within the union there is a common tariff barrier against non-members of the Union.

This is why a distinction should be made between the following in determining the characteristics of buying markets:

- (1) Those that are members of the same preferential trade block as the exporting country.
- (2) Those that are part of other preferential blocks, including states associated with them.
- (3) Those that are basically controlled by international enterprises.
- (4) Those that belong to countries with centrally planned economies.

After analyzing the import statistics for the most interesting markets, information must be obtained on the tariff and non-tariff restrictions that apply to the import of the product and the background material on:

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- The tariff and non-tariff barriers eventually applicable to imports from other sources, and to the possibility of a traditional link with certain suppliers. Obviously, priority must be given to the members of the trade block of which the exporting country is a member, this is particularly important in the case of products that can only compete in a protected market.

- The import substitution policy followed by the country or the regional block to which the buyer may belong, since, if it is not a member, the exporter may be excluded, even by means of the "effective protection" (see annex 1) that may be granted to trade through preferential tariff structure.

- The conditions of payment and convertibility of the currency used to buy the product, which is important in the case of exports to countries whose foreign trade is not normally carried out in convertible currency.

- Whether the marketing of the product is controlled by the government of the importing country or by international enterprises that control competition in the said market. It also happens that certain developing countries still maintain close contacts with their former metropolis both with regard to production and marketing, and these relations are sometimes favoured by tariff preferences that are not extended to other developing countries.

- Whether the volume of the importing market maintains a certain relationship with the amounts it wishes to export, because certain products are best introduced into markets that, though they may not be large, are expanding, where they can achieve a position of importance.

V. BASES FOR A METHODOLOGY FOR THE IDENTIFICATION OF POTENTIALLY
EXPORTABLE MANUFACTURES OR SEMI-MANUFACTURES

Generally speaking, it is a good thing to check that the articles for export comply with as many as possible of the following requirements, in the selection of a product for export from the point of view of supply:

1. Preferably the product should not be protected on the domestic market by very high tariff barriers, nor should it be imported in substantial quantities, since the first is generally an indication of inefficiency in the industrial process (except when there is considerable idle capacity) and the second of insufficient volume or defective quality of production.
2. As far as possible there should be important and efficient industries in the country that can easily be adapted to the demands of the importing countries and do not need to raise their standards of efficiency in a short term over too wide a range.
3. The relation between the f.o.b. value of the exported product and the c.i.f. value of imported inputs and other commitments in foreign currency should be as favourable as possible, in fact the export should bring in a maximum inflow of foreign exchange. For the effects of this relation the economy's expenditure in foreign currency should be taken into account, whether for imported technology or service payments on foreign capital, or in an indirect form, as is the case with imported fuels for energy consumed by the product, when this is provided by a public service.
4. Industries should not require a large investment of capital goods with regard to the employment they generate (a low capital-employment coefficient), especially when equipment is imported and maximum knowledge of technologies is required for optimum employment production factors,^{15/} and for promotion of the development of technologies adapted to the conditions of the region.

^{15/} It has been suggested that, in order to reduce the cost of imported equipment and take advantage of the smaller incidence of regional labour in operational costs and repairs of machines, machinery that has been recently replaced in the highly industrialized countries, because of their high labour costs should be used (see UNIDO, Estudio del desarrollo industrial, Vol. I). It is estimated that although it will not be easy to obtain satisfactory financing, used equipment in good working condition costs about one third of the cost new.

5. There should be relative advantages in the provision of raw materials or other inputs (particularly those that can gain vital importance in the world market) or in the case of products for which local processing is advantageous by reason of their volume, availability or perishable nature, as is the case with forestry products, agroindustrial products, certain raw materials for the textile and leather goods industries, certain chemical and pharmaceutical products, etc. It should be realized that the export of manufactures and semi-manufactures, based on the processing of basic products, will gain in importance as the developing countries are able to integrate a bargaining power that is as strong as that of the importing countries.^{16/} This will facilitate the installation of industries whose capacity and efficiency enable them to reduce production costs and thereby achieve a true international division of labour according to the availability of factors.

6. Raw materials, intermediate products and other inputs should be obtainable with price, quality and reliability conditions similar to those in international competition. It will therefore be advisable to check the level of protection favouring their internal production, otherwise the producer or exporter must have access to the international market for raw materials or he should be compensated by means of subsidies for the difference between the local price of the input and that on the regional or world market, depending on where he is to compete. This condition can be attenuated in the case of exports based on special agreements, as may be the case with exports of inputs for the motor-vehicle industries, linked by compensatory trade or industrial subcontracting.

7. The product should be suitable for import without problems in the case of possible lapses in the domestic market, so as to ensure a permanent flow towards export markets.

^{16/} It is interesting to mention the Agreement signed last February, after lengthy negotiations, by the Persian Gulf countries with twenty-three large international enterprises that control world production, refining and marketing of petroleum. It is estimated that in the next five years this Agreement will bring them an additional income of some 10,000 million dollars for petroleum exports. (See Comercio Exterior, Banco Nacional de Comercio Exterior S.A., February, 1971, Mexico.)

11. Physical infrastructure for internal mobilization, storage and shipment of the export product and its main inputs should exist or be easy to establish.
12. The countries that offer satisfactory tariff treatment should, as far as possible, be members of GATT, or their treatment should be guaranteed by some instrument that has international backing.
13. The product should be or should have the prospect of becoming the object of effective preferential tariff treatment, whether within the trade block of which the producing country becomes a member or within the context of the general tariff preferences that the developed countries are considering for the developing countries.
14. The surcharge percentage on the f.o.b. value of the product for transport to the foreign market should not constitute a considerable disadvantage with regard to suppliers from other countries.
15. In the case of certain markets in the industrialized countries, the product should not be such that these countries qualify as particularly "sensitive" and therefore subject to subsequent restrictions of a non-tariff kind or to voluntary limitations, if the developing countries do not achieve a better international division of labour.
16. They should not be such as to be easily replaceable by similar products with an alternative use.
17. Except in the case of products that may be the object of industrial co-production or sub-contracting agreements with the industrialized countries, they should not, as far as possible, have been the subject of negotiations between these countries with regard to the Kennedy Round.
18. The manufacturing should not involve important secondary problems arising from the accumulation of non-exportable products and by-products that cannot be absorbed by the domestic market, as is the case with certain forestry and chemical industries.
19. Dependence upon foreign technology or financing should not limit the export potential of the product, either as a result of the cost of inputs and imported technology or of restrictions or disadvantages connected with the transference of imported technology.

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8. The product should conform to co-production or subcontracting agreements with foreign industrial enterprises, especially when these can be co-ordinated on the basis of regional or subregional integration instruments. (Among these instruments, which should be standardized mention can be made of the Industrial Complementarity Agreements within ALALC, Sectoral Programmes for Industrial Development consulted by the Andean Group or future Regional Agreements by Branches of Industry which are suggested in the Central American modus operandi.) Also this kind of arrangements is of considerable interest when favourable agreements can be reached with the international enterprises of the countries with market economy ^{17/} or with the so-called Mixed Committees existing in certain socialist economies, since they allow for joint production.

9. The cost-benefit paid by the economy as a whole, represented by the fiscal incentives required for the export of the product, should register a satisfactory balance. In this respect mention should be made of the advantage of finding products that are currently manufactured and that, with adequate incentives or by eliminating any difficulties involved in their export, can compete in external markets; this is particularly valid in the case of well run industries that have considerable idle capacity and that, in the initial period, can export on the basis of their marginal costs.

10. An institutional structure should already exist or be easy to establish to support and direct the export of the products selected; it would also be advisable for the country to have a governmental institution of a technical and financial nature to represent it in negotiations with large international corporations or foreign counterpart institutions. This is particularly important for industries that need capital intensive techniques and production scales geared to exports; they should also be in a position to examine and possibly sign agreements with suppliers of foreign equipment and technology, particularly when contributions and service payments are made through exports that the industry itself generates, in this way the industry not only provides the required foreign currency, it also helps to discover and penetrate the foreign markets.

^{17/} These kinds of agreement generally offer the advantage of contributing technology, training of managerial staff and labour, quality control and international marketing of the product.

It should be pointed out that the elimination of the difficulties that discourage exporters and frequently pass unnoticed, often have as much influence as export incentives. This is why it is important to abolish the duties and charges which may affect the external competitive capacity of the manufactured or semi-manufactured articles, and to avoid overvalued exchange rates, unsatisfactory tax and credit systems - especially those affecting working capital -, problems affecting the supply of raw materials, intermediate products and spare parts under similar conditions to those found in the international market, and to do away with lengthy bureaucratic procedures and over strict conditions for the refund of currency. This is why it is not irrelevant to say that a detailed study of existing difficulties could be a most effective way of detecting potentially exportable products and making them competitive abroad.

Finally it should be borne in mind that, as a result of the greater risk and effort involved in the penetration of the foreign market, the producer normally considers exporting when the net price he receives for operations abroad equals or marginally exceeds the price offered on the domestic market.

Annex 1.

EFFECTIVE TARIFF PROTECTION FOR THE INDUSTRIAL PROCESS

The effective protection that a tariff structure can provide for industry, whether on a national or regional basis, depends basically on the level of the tariff or non-tariff restrictions blocking foreign competition and affecting the final product with regard to the level of protection granted for the inputs required for production.

If raw materials, intermediate products and energy are available for the finished product under conditions similar to those in international commerce, as long as the finished product is protected by considerable barriers, protection can be authorized for the industrial value added which may some times be more than double the nominal tariff. This means that the industrialist can enjoy profit or inefficiency margins that are generally related to the protection offered, thereby reducing his ability to compete abroad.

This is why, unless subsidies at least equal to these for promoting import substitution are provided, or unless domestic demand declines, the producer will normally sell his product on the protected market and his industry will not be efficient.

When the protection is also extended to raw materials and other national or regional inputs, the protection for the industrial process is reduced and partially removed in favour of the suppliers of these inputs.